



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Judicial Branch

*For the Two Fiscal Years Ended
June 30, 2008*

OCTOBER 2008

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DIVISION

08-27

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors
James Gillett
Angie Grove

October 2008

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Judicial Branch (branch) for the two fiscal years ended June 30, 2008. The report includes three recommendations to the branch concerning compliance and internal control issues. The branch's written response to the audit recommendations is presented on page B-3 of the report.

We thank the Chief Justice and the branch personnel for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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ELECTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
Supreme Court	Karla Gray	Chief Justice	2008
	Patricia Cotter	Justice	2008
	William Leaphart	Justice	2010
	Brian Morris	Justice	2012
	James C. Nelson	Justice	2012
	Jim Rice	Justice	2014
	John Warner	Justice	2014
Clerk of Supreme Court	Ed Smith		2012
Appointed Officials	Lois Menzies	Court Administrator	
	Judith Meadows	State Law Librarian	

For additional information concerning the Judicial Branch programs contact:

Lois Menzies, Court Administrator
 Montana Supreme Court
 P.O. Box 203002
 Helena, MT 59620-3002
 (406) 841-2957
 e-mail: lmenzies@mt.gov

REPORT SUMMARY

Judicial Branch

We performed a financial-compliance audit of the Judicial Branch (branch) for the two fiscal years ended June 30, 2008. We issued an unqualified opinion on the financial schedules contained in this report. This means the reader may rely on the information presented in the financial schedules and the supporting data on the state's accounting system.

This report contains three recommendations where the branch could improve compliance with state law and ensure all activity is appropriately recorded on the accounting records. The branch implemented all five prior audit recommendations.

The listing below serves as a means of summarizing the recommendations contained in the report, the branch's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the branch submit an indirect cost proposal to the federal government as required by state law to maximize indirect cost recoveries.....5

Branch Response: Concur B-3

Recommendation #2

We recommend the branch:

A. Remit abandoned property to the Department of Revenue as required by state law.

Branch Response: Concur B-3

B. Return tobacco fines to the appropriate local governments as required by state law.

Branch Response: Concur B-3

C. Record revenue for repayments of expenditures made for the convenience of outside parties in compliance with state accounting policy.

Branch Response: Concur B-3

D. Ensure court reporters file oaths of office with the clerk of court as required by state law.....8

Branch Response: Concur B-3

Recommendation #3

We recommend the branch design internal controls to estimate the reasonableness of Juvenile Delinquency Intervention Program transfers and marriage dissolution receipts on a timely basis.....9

Branch Response: Concur B-4

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Judicial Branch for the two fiscal years ended June 30, 2008. The audit objectives were to:

1. Determine whether the branch complied with selected laws and regulations.
2. Obtain an understanding of the branch's control systems to the extent necessary to support our audit of the branch's financial schedules, and, if appropriate, make recommendations for improvements in the management and internal controls of the branch.
3. Evaluate the implementation status of prior audit recommendations.
4. Determine whether the financial schedules present fairly the results of operations of the branch for each of the two fiscal years ended June 30, 2008, and June 30, 2007.

Auditing standards require us to communicate in writing, control deficiencies we identified as a result of audit objective #2 above and considered to be significant or material. A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis. A significant deficiency is one or more control deficiencies that affect management's ability to accurately process transactions. A material weakness is one or more significant deficiencies that adversely affect management's ability to fairly present its financial schedules.

Table 1 below summarizes the significant deficiencies and material weaknesses we identified during this audit.

Table 1 <u>Summary of Control Deficiencies</u>			
Subject	Significant Deficiency	Material Weakness	Page
Revenue Completeness	Yes	No	8

This report contains three recommendations to the branch. Other areas of concern not having a significant effect on the successful operations of the branch are not included in this report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

Background

The Constitution of the state of Montana vests the judicial power of the state in a Supreme Court, district courts, justice courts, and such other courts as may be provided by law. The Supreme Court, which consists of a Chief Justice and six justices, has appellate jurisdiction and limited original jurisdiction. The Chief Justice is the head of the Supreme Court. The Court Administrator, appointed by the Supreme Court, serves as its administrative officer. The Supreme Court appoints the Law Librarian. The librarian develops and maintains the law library collection and administers library services.

The Supreme Court has general supervisory control over all other courts and may make rules governing appellate procedure, practice and procedure for all other courts, admission to the bar, and conduct of practicing attorneys. The rules of procedure are subject to disapproval by the legislature in either of the two sessions following promulgation.

Supreme Court justices and district court judges are elected to office in nonpartisan elections and serve eight-year and six-year terms, respectively. Terms of office and the procedure for filling vacancies in the courts are established in the Constitution and by statute. The legislature establishes judicial districts and provides for the number of judges in each district. Currently, there are 43 district court judges in 22 judicial districts.

The Clerk of the Supreme Court is elected to a six-year term on a partisan ballot in a statewide election. In accordance with section 3-2-402, MCA, the clerk keeps the Supreme Court's records and files, performs functions relating to issuing writs and certificates, approves bonds, files all papers and transcripts, and performs other duties as required by the Supreme Court.

For fiscal management purposes, the branch is divided into six programs with a total authorized full-time equivalent (FTE) staff level of 398 for fiscal year 2007-08. A description of each program follows:

- ♦ The **Supreme Court Operations** program accounts for the costs of operation of the Supreme Court and Office of the Court Administrator (Office). The Office provides services to the Judicial Branch including information technology, budget and finance, payroll and human resource management, policy and technical support for the Youth Courts, judicial education, and children's services provided through the federal Court Assessment Program (64.75 FTE).
- ♦ The **Boards and Commissions** program accounts for expenditures related to activities of boards and commissions established either by the Constitution, statute, or the Supreme Court. These boards and commissions oversee judicial discipline, rules, admission to the bar, and other functions to improve and monitor the administration of justice (3 FTE).

- ♦ The **Law Library** program accounts for the operation of the State Law Library. The branch maintains the library for use by the Supreme Court, the legislature, state officers and employees, members of the bar, and the general public (6.75 FTE).
- ♦ The **District Court Operations** program accounts for the payment of salaries, travel, training expenses, and operating costs for district court judges, their staff, and youth probation officers. It also includes certain adult criminal, child abuse, and child neglect case expenses (300.08 FTE).
- ♦ The **Water Courts Supervision** program accounts for expenditures of the water courts. Montana's water courts were created to adjudicate claims of existing water rights in Montana and supervise the distribution of water within the four water divisions of the state (18 FTE).
- ♦ The **Clerk of Court** program accounts for the costs of operation of the Clerk of the Supreme Court (5.5 FTE).

Attached Agencies

The Montana Medical Legal Panel and the Montana Chiropractic Legal Panel are attached to the Supreme Court for administrative purposes only and are audited separately. The panels review malpractice claims made against medical or chiropractic physicians and health care providers. The panels must hear and make a decision on a claim before the claim can be filed in court. The panels determine whether substantial evidence of the stated act or omission exists, the act or omission constitutes malpractice, and there is reasonable medical probability of injury because of the act or omission. The decisions of the panels are not binding on the parties.

Prior Audit Recommendations

The branch implemented the five recommendations made in our prior audit report for the two fiscal years ended June 30, 2006.

Chapter II – Findings and Recommendations

Indirect Cost Recoveries

The Judicial Branch did not prepare an indirect cost proposal to recover administrative costs from federal grants.

The branch received \$1,299,591 in federal funds in fiscal year 2006-07. Federal grant programs benefit from the payroll, accounting, information technology, and other administrative operations of the branch. Federal regulations allow grantees, such as the branch, to recover these types of costs that cannot be readily assigned to specific projects through use of an indirect cost rate approved by the federal government. Section 17-1-106(4), MCA, requires state recipients of federal funds to submit an indirect cost proposal to the appropriate federal agency.

The branch has not submitted an indirect cost proposal. As a result, it received only \$2,211 in administrative cost recoveries from one of its 21 federal grants in fiscal year 2006-07. In addition, the branch used \$8,552 of general fund authority to pay its share of the Statewide Cost Allocation Plan, a plan designed to allocate certain centrally administered costs to nongeneral fund sources. A management official said the work to prepare an indirect cost proposal is complex and time-intensive. The branch had planned to do it in fiscal year 2007-08, but used the staff resource to complete control documentation required by state policy.

Section 17-1-106(2), MCA, allows a state agency to receive funds from a federal or private source that does not permit the agency to fully recover indirect costs with the written permission of its approving authority. The Judicial Branch is its own approving authority. However, this provision does not remove the requirement to prepare an indirect cost proposal so indirect costs can be recovered from grant funds.

RECOMMENDATION #1

We recommend the branch submit an indirect cost proposal to the federal government as required by state law to maximize indirect cost recoveries.

State Compliance

The Constitution of Montana vests the judicial power of the state in the Supreme Court, district courts, justice courts, and such other courts as may be provided by law. The Judicial Branch must comply with restrictions in the Constitution, state law, and court policy, as well as applicable state accounting, personnel, and purchasing policies. In the following four sections, we discuss instances where the branch can improve its compliance with state laws and regulations.

Abandoned Property

The branch has abandoned property in its Youth Court restitution accounts.

Youth courts maintain nontreasury checking accounts to receive payments for restitution and reimbursement for services from youth offenders. The branch reconciles each bank account monthly. The reconciliation contains a listing of outstanding checks. We noted some checks that had been issued in 2003 and a significant number of checks that had been outstanding for more than a year. As of June 30, 2008, the branch had \$3,906 in checks outstanding for more than a year listed in the restitution bank account reconciliations.

Section 70-9-803(1)(k), MCA, states that property held by a court should be considered unclaimed one year after it becomes distributable. The check issue date marks the date of distribution. Under state law, property that is not claimed within the time period set in statute is defined as abandoned and should be submitted to the Department of Revenue for deposit in the general fund. The branch had at least \$3,906 in abandoned property in its restitution accounts at June 30, 2008.

The law also provides a process for claiming such property from the Department of Revenue. To allow claimants continued access to these disbursements and facilitate restitution account management by branch personnel, the branch should report and remit abandoned property to the Department of Revenue as required by state law.

Tobacco Fees

The branch received fines due to local governments.

Section 45-5-637(5), MCA, states that fines levied on minors in possession of tobacco products should be deposited in the general fund of the local government that employs the arresting officer or the county where the arrest was made. We found an instance where the youth court in one district remitted \$1,310 in fines from 46 offences over a

two year period to the branch for deposit in the state special revenue fund. Although the chief probation officer of the youth court thought the fines were being transferred to the general fund of the local government that employed the arresting officer, the person making the deposits was not aware of the requirement. The branch should return these funds to the appropriate local government.

Expenditure Abatement

The branch reduced expenditures rather than recording revenue for reimbursement of contracted costs by a third party.

The branch contracts for electronic monitoring of juveniles. The contractor bills the branch for the services. Prior to court action in each case, the monitoring expenditure is the responsibility of the county. After court action, the monitoring expenditure is the responsibility of the branch. When the branch receives an invoice from the contractor, branch personnel bill the county for its share.

The branch records this transaction as a reduction of expenditures. State accounting policy states that an agency paying an outside party on a regular basis as a convenience to the public or another outside party should record the payment for these services as expenditures. By reducing expenditures, the branch understated expenditures and revenue by \$11,448 in the state special revenue fund in fiscal year 2007-08.

Court Reporter Oath of Office

Court reporters did not file the oath of office with the clerk of court.

Section 3-5-601(1), MCA, requires court reporters to take the constitutional oath of office and file it with the clerk of district court. We contacted clerks of court in three of the 22 judicial districts. For one district court we contacted, the clerk did not have oaths of office on file for any of the six court reporters. At another court, the clerk had only three of the six oaths on file. At the third court, the oaths of office were located several days later, but had not been filed with the clerk. The branch should establish procedures to ensure court reporters file oaths of office as state law requires.

RECOMMENDATION #2

We recommend the branch:

- A. *Remit abandoned property to the Department of Revenue as required by state law.*
 - B. *Return tobacco fines to the appropriate local governments as required by state law.*
 - C. *Record revenue for repayments of expenditures made for the convenience of outside parties in compliance with state accounting policy.*
 - D. *Ensure court reporters file oaths of office with the clerk of court as required by state law.*
-

Internal Controls

The branch can improve design of internal controls related to the Juvenile Delinquency Intervention Program transfer-in and dissolution of marriage fees.

Internal controls over financial reporting are a process initiated by management to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with generally accepted accounting principles. As the party responsible for establishing and maintaining effective internal controls, management bears the responsibility for any deficiencies that result from ineffective design or implementation of controls. We noted two situations where branch management can establish more effective control over the completeness of recorded revenue.

- ♦ Under provisions of section 41-5-201(1), MCA, the branch receives a transfer from the Department of Corrections to fund its activities in the Juvenile Delinquency Intervention Program (JDIP). Although the branch has representatives on the JDIP cost containment panel, a committee that oversees JDIP, financial services staff records the amount transferred by the Department of Corrections without checking the reasonableness of the amount with the branch's program personnel. By confirming the reasonableness of the transfer with personnel monitoring the programs, the branch can detect an error in the accounting document before the state's accounting records close. The branch received \$2,337,641 and \$2,124,916 in JDIP funds in fiscal years 2006-07 and 2007-08, respectively.
- ♦ Section 25-1-201(3)(a), MCA, stipulates that \$19 from each filing fee for dissolution of marriage must be deposited in the civil legal assistance account maintained by the branch in the state special revenue fund. District courts remit these collections to the Department of Revenue. The Department of Revenue records the receipts on the state's accounting records. Currently,

branch personnel do not have a procedure for estimating these receipts. An annual calculation of fees by multiplying the number of filings by the fee amount would detect possible errors in submitting fees to the state. The branch received \$133,667 and \$106,647 in marriage dissolution fees for its civil legal assistance account in fiscal years 2006-07 and 2007-08, respectively.

In both of the examples discussed above, the department can obtain an estimate of expected revenue to reduce the risk that revenue recorded by others on the branch's accounts is not complete. In one case, branch accountants can check with a knowledgeable person who is monitoring available JDIP funds prior to fiscal year-end. In the other instance, the branch can project marriage dissolution fee revenue by using case counts from court administrative records.

RECOMMENDATION #3

We recommend the branch design internal controls to estimate the reasonableness of Juvenile Delinquency Intervention Program transfers and marriage dissolution receipts on a timely basis.

Independent Auditor's Report and Branch Financial Schedules

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Judicial Branch (Branch) for the fiscal years ended June 30, 2008, and 2007. The information contained in these financial schedules is the responsibility of the Branch's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the Branch's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances and property held in trust of the Judicial Branch for the fiscal years ended June 30, 2008, and 2007 in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 2, 2008

JUDICIARY
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Agency Fund
FUND BALANCE: July 1, 2007	\$ (1,962,462)	\$ 4,469,488	\$ 0	\$ 0	\$ 4,715	\$ 0
PROPERTY HELD IN TRUST: July 1, 2007						\$ 21,184
ADDITIONS						
Budgeted Revenues & Transfers-In	176,976	2,943,596	555,661	2,909,470	104,898	
Nonbudgeted Revenues & Transfers-In	18,610	123,886	18,000			
Prior Year Revenues & Transfers-In Adjustments	1,817	(17,506)	125			
Direct Entries to Fund Balance	31,586,423	1,376,117	(8)			
Additions to Property Held in Trust						514,616
Total Additions	<u>31,783,826</u>	<u>4,426,093</u>	<u>573,778</u>	<u>2,909,470</u>	<u>104,898</u>	<u>514,616</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	32,643,172	4,231,615	573,778	1,335,158	104,489	
Nonbudgeted Expenditures & Transfers-Out	15,262	6,370				
Prior Year Expenditures & Transfers-Out Adjustments	30,809	1,920				
Reductions in Property Held in Trust						513,998
Total Reductions	<u>32,689,243</u>	<u>4,239,905</u>	<u>573,778</u>	<u>1,335,158</u>	<u>104,489</u>	<u>513,998</u>
FUND BALANCE: June 30, 2008	\$ (2,867,879)	\$ 4,655,676	\$ 0	\$ 1,574,312	\$ 5,124	\$ 0
PROPERTY HELD IN TRUST: June 30, 2008						\$ 21,802

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Agency Fund
FUND BALANCE: July 1, 2006	\$ (3,828,856)	\$ 3,237,218	\$ 4,456	\$ 4,179	\$ 0
PROPERTY HELD IN TRUST: July 1, 2006					\$ 39,499
ADDITIONS					
Budgeted Revenues & Transfers-In	156,969	2,912,350	1,299,515	102,411	
Nonbudgeted Revenues & Transfers-In	18,503	16,898			
Prior Year Revenues & Transfers-In Adjustments	1,210	(3,718)	78		
Direct Entries to Fund Balance	32,196,179	1,212,834	(4,458)		
Additions to Property Held in Trust					397,507
Total Additions	<u>32,372,861</u>	<u>4,138,365</u>	<u>1,295,135</u>	<u>102,411</u>	<u>397,507</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	30,449,531	2,897,945	1,299,591	101,875	
Nonbudgeted Expenditures & Transfers-Out	4,857	7,246			
Prior Year Expenditures & Transfers-Out Adjustments	52,079	904			
Reductions in Property Held in Trust					415,822
Total Reductions	<u>30,506,467</u>	<u>2,906,095</u>	<u>1,299,591</u>	<u>101,875</u>	<u>415,822</u>
FUND BALANCE: June 30, 2007	\$ (1,962,462)	\$ 4,469,488	\$ 0	\$ 4,715	\$ 0
PROPERTY HELD IN TRUST: June 30, 2007					\$ 21,184

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 105,425					\$ 105,425
Taxes	3,353	\$ 156	\$ 134			3,643
Charges for Services	52,107	423,206				475,313
Investment Earnings		15,594				15,594
Fines, Forfeits and Settlements	19,535					19,535
Rentals, Leases and Royalties	1,635					1,635
Miscellaneous	86	17,365			\$ 104,898	122,349
Grants, Contracts, Donations and Abandonments		468,739	18,000			486,739
Other Financing Sources	15,262	2,124,916		\$ 2,909,470		5,049,648
Federal			555,652			555,652
Total Revenues & Transfers-In	<u>197,403</u>	<u>3,049,976</u>	<u>573,786</u>	<u>2,909,470</u>	<u>104,898</u>	<u>6,835,533</u>
Less: Nonbudgeted Revenues & Transfers-In	18,610	123,886	18,000			160,496
Prior Year Revenues & Transfers-In Adjustments	1,817	(17,506)	125			(15,564)
Actual Budgeted Revenues & Transfers-In	<u>176,976</u>	<u>2,943,595</u>	<u>555,661</u>	<u>2,909,470</u>	<u>104,898</u>	<u>6,690,601</u>
Estimated Revenues & Transfers-In	167,835	1,121,747	961,783	2,909,470	130,000	5,290,835
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 9,141</u>	<u>\$ 1,821,849</u>	<u>\$ (406,122)</u>	<u>\$ 0</u>	<u>\$ (25,102)</u>	<u>\$ 1,399,766</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$ 2,425					\$ 2,425
Charges for Services	6,930	\$ 3,688				10,618
Investment Earnings		(6,514)				(6,514)
Miscellaneous	(214)	(12,001)			\$ (25,102)	(37,317)
Grants, Contracts, Donations and Abandonments		(263,240)				(263,240)
Other Financing Sources		2,099,916				2,099,916
Federal			\$ (406,122)			(406,122)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 9,141</u>	<u>\$ 1,821,849</u>	<u>\$ (406,122)</u>	<u>\$ 0</u>	<u>\$ (25,102)</u>	<u>\$ 1,399,766</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Licenses and Permits	\$ 103,000				\$ 103,000
Taxes	2,562	\$ 168	\$ 318		3,048
Charges for Services	47,747	217,687			265,434
Investment Earnings	2,990	21,882			24,872
Rentals, Leases and Royalties	8,237				8,237
Miscellaneous	57	257,831		\$ 102,411	360,299
Grants, Contracts, Donations and Abandonments		90,320			90,320
Other Financing Sources	12,089	2,337,642			2,349,731
Federal			1,299,275		1,299,275
Total Revenues & Transfers-In	176,682	2,925,530	1,299,593	102,411	4,504,216
Less: Nonbudgeted Revenues & Transfers-In	18,503	16,898			35,401
Prior Year Revenues & Transfers-In Adjustments	1,211	(3,718)	78		(2,430)
Actual Budgeted Revenues & Transfers-In	156,969	2,912,350	1,299,515	102,411	4,471,245
Estimated Revenues & Transfers-In	156,959	583,156	1,130,966	102,411	1,973,492
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 10	\$ 2,329,194	\$ 168,549	\$ 0	\$ 2,497,753
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Charges for Services	\$ 10				\$ 10
Other Financing Sources		\$ 2,329,194			2,329,194
Federal			\$ 168,549		168,549
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 10	\$ 2,329,194	\$ 168,549	\$ 0	\$ 2,497,753

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	BOARDS AND COMMISSIONS	CLERK OF COURT	DISTRICT COURT OPERATIONS	LAW LIBRARY	SUPREME COURT OPERATIONS	WATER COURTS SUPERVISION	TOTAL
Personal Services							
Salaries	\$ 129,928	\$ 280,797	\$ 14,425,308	\$ 263,088	\$ 3,376,490	\$ 890,208	\$ 19,365,819
Employee Benefits	41,242	86,748	5,246,046	87,051	1,133,860	292,238	6,887,185
Total	<u>171,170</u>	<u>367,545</u>	<u>19,671,354</u>	<u>350,139</u>	<u>4,510,350</u>	<u>1,182,446</u>	<u>26,253,004</u>
Operating Expenses							
Other Services	22,586	25,025	2,061,085	229,953	1,925,921	6,586	4,271,156
Supplies & Materials	6,332	4,622	484,673	30,605	736,929	40,428	1,303,589
Communications	6,581	12,996	287,781	8,517	270,953	61,316	648,144
Travel	91,956	2,791	460,544	4,798	129,254	6,110	695,453
Rent	3,717	7,009	69,910		556,656	80,426	717,718
Repair & Maintenance		406	75,596	486,193	531,729	6,454	1,100,378
Other Expenses	3,883	1,526	139,878	9,310	47,523	23,809	225,929
Total	<u>135,055</u>	<u>54,375</u>	<u>3,579,467</u>	<u>769,376</u>	<u>4,198,965</u>	<u>225,129</u>	<u>8,962,367</u>
Equipment & Intangible Assets							
Equipment			30,577	(157,547)	118,333	13,561	4,924
Capital Leases-Equipment-Nonbu				15,262			15,262
Intangible Assets					1,118,950		1,118,950
Total			<u>30,577</u>	<u>(142,285)</u>	<u>1,237,283</u>	<u>13,561</u>	<u>1,139,136</u>
Grants							
From State Sources			299,425		274,469		573,894
Total			<u>299,425</u>		<u>274,469</u>		<u>573,894</u>
Benefits & Claims							
To Individuals			1,987,568				1,987,568
Total			<u>1,987,568</u>				<u>1,987,568</u>
Debt Service							
Capital Leases			3,749	22,855			26,604
Total			<u>3,749</u>	<u>22,855</u>			<u>26,604</u>
Total Expenditures & Transfers-Out	\$ <u>306,225</u>	\$ <u>421,920</u>	\$ <u>25,572,140</u>	\$ <u>1,000,085</u>	\$ <u>10,221,067</u>	\$ <u>1,421,136</u>	\$ <u>38,942,573</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 258,843	\$ 421,920	\$ 22,920,577	\$ 870,843	\$ 8,217,060		\$ 32,689,243
State Special Revenue Fund	47,382		2,325,621	24,753	421,013	\$ 1,421,136	4,239,905
Federal Special Revenue Fund			325,942		247,836		573,778
Capital Projects Fund					1,335,158		1,335,158
Enterprise Fund				104,489			104,489
Total Expenditures & Transfers-Out	<u>306,225</u>	<u>421,920</u>	<u>25,572,140</u>	<u>1,000,085</u>	<u>10,221,067</u>	<u>1,421,136</u>	<u>38,942,573</u>
Less: Nonbudgeted Expenditures & Transfers-Out			6,370	15,262			21,632
Prior Year Expenditures & Transfers-Out Adjustments	553		32,177	(804)	802		32,728
Actual Budgeted Expenditures & Transfers-Out	<u>305,672</u>	<u>421,920</u>	<u>25,533,593</u>	<u>985,627</u>	<u>10,220,265</u>	<u>1,421,136</u>	<u>38,888,213</u>
Budget Authority	361,319	434,434	28,751,506	1,045,876	14,045,511	1,483,360	46,122,006
Unspent Budget Authority	\$ <u>55,647</u>	\$ <u>12,514</u>	\$ <u>3,217,913</u>	\$ <u>60,249</u>	\$ <u>3,825,246</u>	\$ <u>62,224</u>	\$ <u>7,233,793</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 44,106	\$ 12,514	\$ 1,194,493	\$ 2,011	\$ 1,468,721		\$ 2,721,845
State Special Revenue Fund	11,541		1,819,392	44,051	376,925	\$ 62,224	2,314,133
Federal Special Revenue Fund			204,028		405,288		609,316
Capital Projects Fund					1,574,312		1,574,312
Enterprise Fund				14,187			14,187
Unspent Budget Authority	\$ <u>55,647</u>	\$ <u>12,514</u>	\$ <u>3,217,913</u>	\$ <u>60,249</u>	\$ <u>3,825,246</u>	\$ <u>62,224</u>	\$ <u>7,233,793</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	BOARDS AND COMMISSIONS	CLERK OF COURT	DISTRICT COURT OPERATIONS	LAW LIBRARY	SUPREME COURT OPERATIONS	WATER COURTS SUPERVISION	TOTAL
Personal Services							
Salaries	\$ 112,083	\$ 274,140	\$ 13,399,937	\$ 260,200	\$ 2,958,005	\$ 768,763	\$ 17,773,128
Employee Benefits	35,525	85,975	4,832,268	84,771	948,686	250,247	6,237,472
Total	<u>147,608</u>	<u>360,115</u>	<u>18,232,205</u>	<u>344,971</u>	<u>3,906,691</u>	<u>1,019,010</u>	<u>24,010,600</u>
Operating Expenses							
Other Services	30,359	4,439	3,016,476	212,879	1,145,199	7,421	4,416,773
Supplies & Materials	12,254	27,195	510,102	15,802	1,660,718	23,892	2,249,963
Communications	10,999	11,804	259,821	9,366	260,768	37,729	590,487
Travel	99,766	977	413,465	6,539	103,230	3,737	627,714
Rent	11,335	5,994	50,351		459,114	76,591	603,385
Repair & Maintenance	30	778	49,662	1,380	287,371	7,822	347,043
Other Expenses	6,492	5,776	133,597	16,312	28,298	11,252	201,727
Total	<u>171,235</u>	<u>56,963</u>	<u>4,433,474</u>	<u>262,278</u>	<u>3,944,698</u>	<u>168,444</u>	<u>9,037,092</u>
Equipment & Intangible Assets							
Equipment			21,103	270,690	13,682	19,906	325,381
Capital Leases-Equipment-Nonbudgeted			12,089				12,089
Intangible Assets		1			204,000		204,001
Total		<u>1</u>	<u>33,192</u>	<u>270,690</u>	<u>217,682</u>	<u>19,906</u>	<u>541,471</u>
Benefits & Claims							
To Individuals			1,186,278				1,186,278
Total			<u>1,186,278</u>				<u>1,186,278</u>
Transfers							
Accounting Entity Transfers					8,485		8,485
Total					<u>8,485</u>		<u>8,485</u>
Debt Service							
Capital Leases			5,861	24,241			30,102
Total			<u>5,861</u>	<u>24,241</u>			<u>30,102</u>
Total Expenditures & Transfers-Out	\$ <u>318,843</u>	\$ <u>417,079</u>	\$ <u>23,891,010</u>	\$ <u>902,180</u>	\$ <u>8,077,556</u>	\$ <u>1,207,360</u>	\$ <u>34,814,028</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 251,971	\$ 398,684	\$ 21,777,554	\$ 800,305	\$ 7,277,953		\$ 30,506,467
State Special Revenue Fund	66,872		1,512,240		119,623	\$ 1,207,360	2,906,095
Federal Special Revenue Fund		18,395	601,216		679,980		1,299,591
Enterprise Fund				101,875			101,875
Total Expenditures & Transfers-Out	<u>318,843</u>	<u>417,079</u>	<u>23,891,010</u>	<u>902,180</u>	<u>8,077,556</u>	<u>1,207,360</u>	<u>34,814,028</u>
Less: Nonbudgeted Expenditures & Transfers-Out			19,540		(7,218)	(217)	12,105
Prior Year Expenditures & Transfers-Out Adjustments		(8)	52,819		(95)	267	52,983
Actual Budgeted Expenditures & Transfers-Out	<u>318,843</u>	<u>417,087</u>	<u>23,818,651</u>	<u>902,180</u>	<u>8,084,869</u>	<u>1,207,310</u>	<u>34,748,940</u>
Budget Authority	373,718	432,051	27,415,212	904,115	8,508,919	1,277,136	38,911,151
Unspent Budget Authority	\$ <u>54,875</u>	\$ <u>14,964</u>	\$ <u>3,596,561</u>	\$ <u>1,935</u>	\$ <u>424,050</u>	\$ <u>69,826</u>	\$ <u>4,162,211</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 28,578	\$ 14,964	\$ 1,161,432	\$ 1,858	\$ 10,442		\$ 1,217,274
State Special Revenue Fund	26,297		1,573,942		53,748	\$ 69,826	1,723,813
Federal Special Revenue Fund			861,187		359,860		1,221,047
Enterprise Fund				77			77
Unspent Budget Authority	\$ <u>54,875</u>	\$ <u>14,964</u>	\$ <u>3,596,561</u>	\$ <u>1,935</u>	\$ <u>424,050</u>	\$ <u>69,826</u>	\$ <u>4,162,211</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

Judicial Branch Notes to the Financial Schedules For the Two Fiscal Years Ended June 30, 2008

1. Summary of Significant Accounting Policies

Basis of Accounting

The branch uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Capital Projects). In applying the modified accrual basis, the branch records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the branch to record the cost of employees' annual and sick leave when used or paid.

The branch uses accrual basis accounting for its Proprietary (Enterprise) fund categories. Under the accrual basis, as defined by state accounting policy, the branch records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the branch receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The branch uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources other than major capital projects that are legally restricted to

expenditures for specific state program purposes. Branch State Special Revenue Funds include Youth Court Fines and Fees, Juvenile Delinquency Intervention Program Surplus, Renewable Resources, Law Library Digital Project, Judicial Education, Water Adjudication, Legal Assistance, Natural Resources, CSED Registry, State Grants to Drug Courts, Accrued County Sick and Vacation Leave Balances and Judiciary nonbudgeted private funds.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Branch Federal Special Revenue Funds include miscellaneous grants for District Courts, and various branch grants for computer licenses and computer hardware.
- ♦ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The branch uses this fund in fiscal year 2007-08 for Long Range Information Technology Projects.

Proprietary Fund Category

- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. The branch Enterprise Fund consists of the Law Library Searches/Research fund.

Fiduciary Fund Category

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal clearing account activity of the state but these must have a zero balance at fiscal year-end. The branch agency funds include Bad Debt Collection and District Court Youth Probation Restitution.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The branch has authority to pay obligations from the statewide General Fund within its appropriation limits. The branch expends cash or other assets from the statewide fund when it pays General Fund obligations. The branch's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2007 and June 30, 2008.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Revenue Estimates

The budgeted revenues and transfer-in in excess of estimated revenues in the State Special Revenue Fund for other financing sources, in fiscal years 2006-07 and 2007-08, consists primarily of Juvenile Delinquency Intervention Program transfers from the Department of Corrections.

JUDICIAL BRANCH

BRANCH RESPONSE

THE SUPREME COURT OF MONTANA

KARLA M. GRAY
CHIEF JUSTICE

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P.O. BOX 203001
HELENA, MONTANA 59620-3001



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October 10, 2008

Ms. Tori Hunthausen, Legislative Auditor
Legislative Audit Division
Room 135, State Capital
Helena, MT 59620

RECEIVED

OCT 14 2008

LEGISLATIVE AUDIT DIV.

Re: Judicial Branch Financial Compliance Audit for FY 2007 and FY 2008

Dear Ms. Hunthausen:

We have reviewed the October 2008 Financial-Compliance Audit of the Judicial Branch for the two fiscal years ending June 30, 2008. As always, the assistance from your office in helping us identify areas in which accounting weaknesses or gaps exist has been of great value. We appreciate the opportunity to respond.

The audit contains three recommendations for improving the Branch's fiscal operations. Our responses and corrective actions are presented below:

Recommendation #1

We recommend the branch submit an indirect cost proposal to the federal government as required by state law to maximize indirect cost recoveries.

Response:

We concur. The Office of Court Administrator (OCA) will work with the Department of Administration and the appropriate cognizant federal agency to develop and submit an indirect cost proposal. Given the anticipated complexity of developing an indirect cost proposal and limited staff resources, the OCA estimates that it will be able to complete the proposal by December 31, 2009.

Recommendation #2

We recommend the branch:

- A. Remit abandoned property to the Department of Revenue as required by state law.
- B. Return tobacco fines to the appropriate local governments as required by state law.
- C. Record revenue for repayments of expenditures made for the convenience of outside parties in compliance with state accounting policy.
- D. Ensure court reporters file oaths of office with the clerk of court as required by state law.

Response:

- A. We concur. The OCA will remit the funds for checks held for more than a year in the Youth Court restitution accounts to the Department of Revenue by January 1, 2009.
- B. We concur. The OCA will return tobacco fines collected to the appropriate local governments by November 28, 2008.
- C. We concur. In order to comply with state accounting policy regarding repayments of expenditures, the OCA will work with vendors and outside parties to ensure that only valid Branch obligations are paid by the Branch. This will preclude the necessity of recording revenue and Branch expenditures will be recorded correctly.
- D. We concur. The OCA has contacted all court reporters to ensure that each has filed an oath with the clerk of district court. In addition, written information provided to newly hired court reporters has been revised to notify these new employees that an oath must be filed and to require that they submit a copy of the oath to the OCA within 20 days after their first day of employment. If the oath is not received within this time period, the OCA will follow up with the court reporters to ensure compliance.

Recommendation #3

We recommend the branch design controls to estimate the reasonableness of juvenile delinquency intervention program and marriage dissolution receipts on a timely basis.

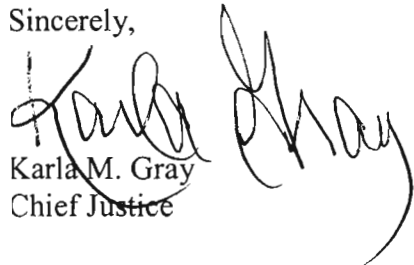
Response:

We concur. The OCA has developed fiscal year end procedures to estimate the reasonableness of the Juvenile Delinquency Intervention Program fund transfer from the Department of Corrections. In addition, the OCA has developed a procedure for using case filing data from the District Court case management system to estimate the reasonableness of the marriage dissolution receipts recorded by the Department of Revenue. This procedure will be conducted by January 1 each year.

We would like to personally thank your staff for conducting this audit in such a cooperative, professional manner. Their findings and recommendations provide valuable insight as we continue to provide judicial services in a fiscally appropriate and prudent manner.

We are available to answer questions or provide further information that you or the Legislative Audit Committee may require. We assure you that we will continue to do our very best to maintain proper fiscal accountability within the Judicial Branch.

Sincerely,


Karla M. Gray
Chief Justice


Becky Buska
Financial Services Director